



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

THE DIRECTOR

June 16, 2015

The Honorable Hal Rogers
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On June 11, 2015, the Financial Services and General Government Subcommittee considered the fiscal year (FY) 2016 Financial Services and General Government Appropriations bill. The Administration supports investments in maintaining taxpayer services and enforcement, protecting consumers and investors through the continued implementation of Wall Street reform, and reducing the Federal real property footprint. However, we have a number of serious concerns about this legislation, which would underfund these important investments and includes highly problematic ideological riders. In advance of Full Committee consideration of the Subcommittee bill, I would like to take this opportunity to share some of these concerns with you.

The Financial Services and General Government Appropriations bill is the ninth appropriations bill being considered under the congressional Republicans' 2016 budget framework, which would lock in sequestration funding levels for FY 2016. Sequestration was never intended to take effect: rather, it was supposed to threaten such drastic cuts to both defense and non-defense funding that policymakers would be motivated to come to the table and reduce the deficit through smart, balanced reforms. The Republicans' 2016 budget framework would bring base discretionary funding for both non-defense and defense to the lowest levels in a decade, adjusted for inflation. Compared to the President's Budget, the cuts would result in tens of thousands of the Nation's most vulnerable children losing access to Head Start, more than two million fewer workers receiving job training and employment services, and drastic cuts to research awards and grants, along with other impacts that would hurt the economy, the middle class, and Americans working hard to reach the middle class.

Sequestration funding levels would also put our national security at unnecessary risk, not only through pressures on defense spending, but also through pressures on State, USAID, Homeland Security, and other non-defense programs that help keep us safe. More broadly, the strength of our economy and the security of our Nation are linked. That is why the President has been clear that he is not willing to lock in sequestration going forward, nor will he accept fixes to defense without also fixing non-defense. The President's Budget would reverse sequestration and replace the savings with commonsense spending and tax reforms. It brings middle-class economics into the 21st Century and makes the critical investments needed to support our

national security and accelerate and sustain economic growth in the long run, including research, education, training, and infrastructure.

The inadequate overall funding levels in the Republicans' 2016 budget framework, along with misplaced priorities, cause a number of problems with the Subcommittee bill specifically. Overall, according to the Subcommittee, this bill reduces funding by about \$4.8 billion, or about 19 percent, below the President's Budget. The bill slashes funding for the Internal Revenue Service (IRS), undermining the fairness and integrity of the tax system in ways that will ultimately increase the deficit. It jeopardizes the independent regulation of financial markets and telecommunications and also undermines the basic functioning of Government through damaging cuts to the General Services Administration (GSA). For example, the bill:

Undermines the IRS' ability to conduct many of its most basic duties.

The bill cuts the IRS by more than \$2.8 billion, or 22 percent, compared to the President's Budget, and by \$838 million, or nearly 8 percent, compared to the FY 2015 enacted level. Additional funding cuts would come on top of the drastic cuts already enacted since 2010. As a result, in real terms, the Subcommittee funding level is less than the IRS's FY 1991 budget—25 years ago, when there were 38 million fewer individual taxpayers and a far less complicated tax code. The consequences of these funding cuts include:

- **Diminished enforcement capabilities.** During FY 2015, as a result of funding cuts already enacted, the IRS will lose approximately 1,800 key enforcement personnel that it cannot replace. These individuals are vital to ensuring that the tax code is administered fairly. In fact, every \$1 invested in IRS enforcement is estimated to produce at least \$4 in revenue, or at least a 4 to 1 return. As a result of funding cuts that have already occurred to date, IRS enforcement revenues this year are expected to be \$7 billion to \$8 billion lower than if 2010 funding levels had been sustained. These are taxes that are already owed under current law, but will go uncollected because the IRS lacks the resources needed to track down tax cheats and make sure large multinational corporations, the wealthiest, and ordinary American workers all play by the same rules.

If the IRS is forced to absorb the Subcommittee bill's additional cut, enforcement revenues in FY 2016 are estimated to be more than \$12 billion lower than if FY 2010 staffing levels had been maintained. To put that number in context, \$12 billion is more than the entire cost of the Head Start program for a year, or more than enough to fund the entire operating budgets for the National Science Foundation and the Department of Energy's Advanced Research Projects Agency, combined.

- **Locking in unacceptable levels of taxpayer services.** This fiscal year, the IRS will answer fewer than half as many taxpayer calls as in FY 2010, with less than 4 out of every 10 callers reaching a live assistor and an estimated 28 million calls going unanswered. This is the lowest level of telephone service on record. So far this fiscal year, more than 11 million callers have either been automatically disconnected by the system due to unmanageable call volume or chose to hang up while they were on hold. The IRS has also been forced to cut

staffing at Taxpayer Assistance Centers, resulting in unacceptably long wait times for face-to-face assistance.

Although the bill allocates \$75 million for telephone level of service, correspondence, and identity theft work, these funds would at best prevent further degradation to taxpayer experiences. The funding levels requested in the President's Budget would double the telephone level of service, enabling 8 out of every 10 callers needing assistance to reach a live assistor, and providing the robust customer service that Americans deserve.

- **Protecting taxpayer information.** Maintaining up-to-date technological infrastructure is essential to the protection of taxpayer data, as the IRS is a prime target for cyberattacks. However, on average, the IRS is currently three upgrades behind current software releases. The Subcommittee's lack of support for the IRS's technology infrastructure would mean further deferral of cybersecurity and infrastructure upgrades, jeopardizing the strong defenses IRS needs. The bill would also bring a halt to progress on key projects, including expansion of the specialized Criminal Investigation Identity Theft Clearinghouse that processes identity theft leads and other improvements, which would enable the IRS to detect and quickly resolve tax return anomalies that can signal identity theft.

Jeopardizes the independent regulation of financial markets and telecommunications.

Wall Street Reform built a stronger and more stable foundation for economic growth and made our financial system safer and more resilient by curbing excessive risk-taking, closing regulatory gaps, and putting in place the strongest consumer financial protections in history. However, the full benefit to the Nation's citizens and the economy cannot be realized unless the entities charged with establishing and enforcing the rules of the road have the resources and independence to do so.

- **Securities and Exchange Commission (SEC).** Compared to the President's Budget, the bill cuts funding for the SEC by \$222 million, or 13 percent, hindering its enforcement, examination, and market oversight functions and thereby reducing investor protections. The SEC is fee-funded and its funding level has no impact on the deficit, nor does it impact the amount of funding available for other agencies. While the bill is level with FY 2015 funding, total resources available to the SEC are lower because the bill blocks the SEC from \$75 million in authorized and planned information technology (IT) spending from the agency's mandatory Reserve Fund, which was established by the Wall Street Reform Act. The cuts also limit the SEC's ability to respond to the high volume of securities-related misconduct, as the Commission strives to keep pace with industry's increasing use of new and technologically-complex financial products and services.
- **Consumer Financial Protection Bureau (CFPB).** The bill subjects the CFPB to annual appropriations, which would weaken its independence and undermine its ability to serve the most vulnerable consumer populations. CFPB protects consumers of financial products from unfair, abusive, and deceptive practices and sets clearer rules so that responsible lenders know how to operate fairly. Unlike other Federal banking agencies, the CFPB's independent funding is subject to a statutory cap and the bulk of its resources are spent on examining

banks and nonbanks for compliance with Federal consumer financial laws. Politicizing the funding of bank supervision would be a step in the wrong direction. Independent funding is an important means of ensuring that the CFPB can examine all institutions fairly and provide a level playing field.

- **Office of Financial Research (OFR) and Financial Stability Oversight Council (FSOC).** The bill would also subject the OFR and the FSOC to annual appropriations, which would hinder their independence and limit their ability to develop critical market analysis and improve regulator coordination, particularly if funding shortfalls prevent investments in technology or the hiring of highly-skilled staff.
- **Federal Communications Commission (FCC).** The bill cuts funding for the FCC by \$98 million, or 24 percent, compared with the President's Budget. Because the FCC is funded by regulatory fees and auction proceeds, its funding level has no impact on the deficit, nor does it impact the amount of funding available for other agencies. Thus, these cuts unnecessarily force the FCC to scale back important work on public safety, wireless spectrum, and universal service, while increasing overall costs for taxpayers.

Continues damaging cuts to the GSA.

Funding for GSA is central to ensuring that agencies can perform their missions in an efficient and effective way. The Subcommittee bill undermines GSA's ability to deliver services, impacting agencies Government-wide.

- **GSA's Federal Buildings Fund (FBF).** The bill's funding level for the FBF is unacceptable—at nearly \$700 million below last year's level, \$1.4 billion below the anticipated level of rent collections from other Federal agencies in FY 2016, and more than \$1.9 billion below the Administration's request. The bill denies all funding for new construction and provides less than half the request for major building repair. By doing so, the bill forecloses opportunities to consolidate space and save taxpayer dollars over the long term (e.g., the Department of Homeland Security consolidation at St Elizabeths, the American Red Cross Building purchase in Washington, D.C., the Jacob K. Javits Federal Building in New York, the William Green Jr. Federal Building in Pennsylvania, and the Schwartz Federal Building and Courthouse in California), modernize infrastructure and advance important policy priorities (e.g., the Nashville Courthouse), protect worker health and safety (e.g., the Denver Federal Center, the Abraham Ribicoff Federal Building in Connecticut, the Theodore Levin Courthouse in Michigan, the Goodfellow Federal Complex in Missouri, and the Potter Stewart Courthouse in Ohio), and advance important U.S. interests in international commerce (e.g., the Alexandria Bay, New York and Columbus, New Mexico Land Ports of Entry).

Since FY 2011, the Subcommittee has chosen to fund the FBF at levels billions below what GSA collects in rent from agencies. Underfunding renovation is particularly damaging, as the Government must be a good steward of its own assets, able to take advantage of opportunities to save money over the long term and maintain its buildings adequately to avoid more costly failures in the future. Further, the practice of chronically underfunding the

FBF is unfair to other Federal agencies, who are no longer receiving the space and services that they are paying for, as well as to the other appropriations subcommittees who are providing funds that are never used for their intended purpose.

- **Federal Priority Goals.** The Subcommittee bill also fails to include a high priority transfer authority proposal, which would provide a total of \$15 million in agency-transferred funding to accelerate progress on the Federal priority goals established by the GPRA Modernization Act. By not including this important transfer authority, the bill fails to establish a means of funding the execution of cross-agency efforts on areas critical to the Nation's economy and prosperity, including: infrastructure permitting and job creating investment. Without such authority, CAP Goal leaders are constrained in their ability to implement effective solutions, leaving various Federal programs to address shared issues in a duplicative, siloed, and ad hoc way.

The bill also does not include the \$15.2 million increase the President's Budget requests for the Information Technology Oversight and Reform (ITOR) fund. ITOR funds important efforts to protect Federal systems through a dedicated cybersecurity unit to accelerate Government-wide implementation of leading solutions to address new and constantly evolving advanced, persistent cyber-threats. With increased funding, the unit will also expand the number of specialized engineering experts available to assist agencies in implementing new solutions to secure the Nation's highest value information targets. The ITOR fund also supports efforts to ensure the quality of the Nation's most impactful citizen-facing programs and improve customer satisfaction through the U.S. Digital Service, drive value in Federal IT investments, and implement the Federal IT Acquisition Reform Act. Failure to fund ITOR at the requested amount represents a missed opportunity to further expand and institutionalize these efforts, which have resulted in over \$2.5 billion in cost savings and countless other improvements across Government to make Federal systems and programs more effective, efficient, and secure.

The Subcommittee bill also includes highly problematic ideological riders. Specifically, the Administration strongly opposes sections of the bill that limit IRS funding and transfers to carry out implementation of the Affordable Care Act, through which millions of individuals have signed up for coverage through the Health Insurance Marketplaces, and to provisions that unnecessarily encumber IRS operations with reporting requirements. The Administration also strongly opposes language in the bill affecting foreign relations with Cuba including funding prohibitions on non-academic educational exchanges. This language would result in a reduction of people-to-people interactions and as such is counter to the Administration's policy to increase overall travel and the flow of information and resources to private Cubans. This provision is an unwarranted restriction on purposeful travel to Cuba. The Administration strongly opposes language in the bill restricting the District of Columbia's use of its local funds, undermining the principle of States' rights and of District home rule. The Administration also strongly opposes language in the bill restricting the District of Columbia's use of its Federal funds for needle exchanges. There is strong evidence that appropriate needle exchange programs can reduce the incidence of infectious diseases, such as HIV and Hepatitis, without encouraging illicit drug use. The bill also contains provisions aimed at delaying or preventing implementation of the FCC's net neutrality order, which creates a level playing field for innovation and provides important

consumer protections on broadband service, and prohibits certain direct or indirect regulations that could independently prevent the order from being implemented.

The Administration believes that the Congress should consider appropriations bills free of unrelated ideological provisions. The inclusion of these provisions threatens to undermine an orderly appropriations process.

As your Committee takes up the Financial Services and General Government Subcommittee bill, we look forward to working with you to address these concerns. More broadly, we look forward to working with the Congress to reverse sequestration for defense and non-defense priorities, and offset the cost with commonsense spending and tax expenditure cuts, as Members of Congress from both parties have urged.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Shaun Donovan', with a long horizontal flourish extending to the right.

Shaun Donovan
Director

Identical Letter Sent to The Honorable Nita Lowey